



**Central
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SITUATION REPORTS

IRAN

Prime Minister Bakhtiar is deeply concerned by the prospect that Ayatollah Khomeini may return to Iran once the Shah leaves. Khomeini, meanwhile, is increasing the pressure on the regime by trying to undermine the loyalty and morale of the military--apparently with some success.

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Bakhtiar is especially concerned that Khomeini's return could split the military between senior officers and elite units loyal to the Shah on the one hand and the more religiously oriented lower ranks on the other, 25X1 thereby precipitating civil war.

Bakhtiar says he probably would "resign immediately" if Khomeini returns. While some of his comments were doubtless intended for effect, the Prime Minister and other key government officials are clearly disturbed by the prospect of Khomeini's arrival in Iran. These officials recognize that any move against Khomeini risks provoking massive unrest. Hardline military officers, however, might well demand that Bakhtiar arrest Khomeini.

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Some kind of negotiated settlement between Khomeini and the military is essential if widespread violence is to be averted in the days ahead. There is no guarantee, however, that either side has the wisdom to make the necessary compromises. This week will likely conclude with major demonstrations Friday and Saturday to mark the traditional 40th day after Ashura--the holiest day in Shia Islam--an occasion when the ability of the Iranians to resolve their crisis will be tested severely.

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Khomeini already is attempting to win over the rank and file in the military. He appealed yesterday to his followers to treat soldiers with "brotherly kindness" and to avoid unnecessary provocations. The incidents of fraternization between demonstrators and soldiers appear so far to be isolated, but they are symbolic of the trend in the military toward a decline in morale.

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BRIEFS AND COMMENTS

TANZANIA-UGANDA: Military Situation

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Tanzanian artillery bombarded military positions in southern Uganda last weekend. These attacks may be part of a plan to increase military activity along the border

Ugandan exiles may have oversold Tanzania on their prospects for success.

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The exiles are still split along tribal lines despite several recent efforts to bring them together,

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The most active group--about 1,000 strong--is a confederation composed primarily of members of the traditional southern ruling group.

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Ugandan President Amin's government, as usual, appears to be aware of the plans against it. Kampala radio warned yesterday against private travel to southern Uganda and alerted military personnel. It also warned that Uganda might counterattack if the Tanzanian bombardment continues.

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NATO: Reactions to Guadeloupe

Secretary General Luns was appreciative of Ambassador Bennett's briefing on the summit but termed it "preliminary" and made it clear that the Council hoped to be provided more details. Several unidentified Permanent Representatives approached Ambassador Bennett to second Luns' comments. [REDACTED]

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So far, the Italians have been the most vocal critics of the summit. Italian President Pertini, for example, told Ambassador Gardner last week that the favorable Italian view of the US would be seriously eroded were a Guadeloupe "directorate" to be institutionalized. [REDACTED]

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While most of the smaller NATO members would agree that the US, UK, West Germany, and France have the right to meet privately among themselves, they want to be kept fully informed about discussions that might affect their security. If the smaller NATO members perceive that an institutionalized, two-tier system is developing within the Alliance, cooperation on a host of issues could become more difficult. [REDACTED]

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CHINA-ITALY: Communist Party Connections

The Chinese Communist Party may soon propose the reestablishment of relations with the Communist Party of Italy, [redacted] The move 25X1 would enable the Chinese to support those within the Italian party who want to maintain the party's independence of Moscow. Leaders in Beijing (Peking) may have decided that China's past dogmatic policies toward Euro-communist parties, particularly the Italian, have served only to inhibit China's maneuverability. [redacted] 25X1

China remained unreceptive to signs of readiness by the Italian Communists to resume contact until the visit of Chairman Hua Guofeng (Hua Kuo-feng) to Yugoslavia and Romania last summer. [redacted]

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[redacted] The Chinese appear more convinced of the autonomy of the Italian party than of the autonomy of the French and Spanish parties. [redacted] 25X1 25X1

Within weeks, high-ranking Italian Communists used several press interviews to demonstrate their interest in renewed party ties. The subject apparently caused controversy within the Italian party; some party commentators pointed to the anti-Soviet aspects of Chinese policy, while others minimized the anti-Moscow element in Hua's visit to the Balkans. [redacted] 25X1 25X1

The Italian Communist leadership does not favor a Chinese - West European entente or Chinese purchases of Western arms. Italian Communist leaders, moreover, will not develop relations with China at Moscow's expense. [redacted]

During his visit to Moscow in October, Communist chief Berlinguer apparently told his hosts that the Italian party would stand equidistant between the Soviets and Chinese. The Soviets did not criticize this position, but they could hardly have been pleased. [redacted] 25X1

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SOUTH KOREA - JAPAN: Concern About Relations

Officials in South Korea are reportedly apprehensive that the normalization of relations between Japan and China has begun to undercut the priority Tokyo attaches to its ties with Seoul. The South Koreans are always concerned about shifts in relationships among their larger neighbors, and this concern has been intensified by uncertainty about the foreign policy goals of the new government in Japan.

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South Korean anxieties have focused on Japanese Foreign Minister Sonoda's recent remarks noting Tokyo's continued interest in seeking government-to-government contacts with North Korea. Sonoda's remarks have led some officials in Seoul to believe that Tokyo has begun to tone down its support for South Korea in parallel with improving Sino-Japanese relations.

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Prime Minister Ohira has long supported a Japanese policy favoring close relations with South Korea, and he is unlikely to sponsor initiatives that would undercut Seoul's security or diplomatic equities. Even so, Ohira is less closely associated with the pro - South Korean conservatives in the ruling Liberal Democratic Party than was former Prime Minister Fukuda.

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Some South Korean officials are said to be considering more activist measures--such as highlighting their displeasure over Japan's burgeoning trade surplus with South Korea--as responses to real or perceived shifts in Japanese policy toward the peninsula. At this juncture, however, the South Koreans seem more likely to concentrate on broadening their contacts with the Ohira government.

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SPAIN: Counterterrorism

More violence has erupted in Spain's troubled Basque region the past few days amid signs of renewed vigilante activity by extreme rightists. The military is unlikely to become directly involved, however, unless terrorists follow up on threats to assassinate additional senior army officers. [redacted] 25X1

The Basque terrorist organization, ETA, is likely to retaliate quickly and harshly for the near-fatal attack on one of its leaders in southern France on Saturday. Two far-right groups in Spain have claimed responsibility for the shooting; members of the paramilitary Civil Guard, however, are widely believed to form the core of such rightist groups, and the ETA will probably seek revenge by killing prominent police officials. [redacted]

Last month, another ETA leader was killed by a bomb in southern France. The attacks on the two ETA leaders seem likely to signal a resurgence of far-right terrorist groups in the Basque region. [redacted] 25X1

ETA could also retaliate by pursuing its avowed intention of killing senior military officers. The Spanish military is already incensed by the assassinations earlier this month of two army officers, which resulted in public protests by the military. Further attacks on army officers could unleash emotional forces difficult to control. [redacted] 25X1

Key military commanders still appear committed to staying within the bounds of the constitution, and they do not relish the prospect of becoming directly involved in the Basque situation through the imposition of martial law. At the very least, however, they would be likely to exert intense pressure on the government to crack down hard on the Basques by using the extraordinary police powers granted last year. [redacted]

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YUGOSLAVIA: Tito to Visit Kuwait

According to a Kuwaiti Government announcement, Yugoslav President Tito will visit Kuwait from 3 to 6 February. The Kuwaiti press is speculating that Tito may go on to Iraq and Syria in an effort to narrow those two countries' differences with Egyptian President Sadat over the Camp David accords. Tito may speak favorably about the accords in private but is unlikely to press leaders in Baghdad and Damascus to drop their opposition to an Egyptian-Israeli treaty.

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Tito continues to oppose Israel's stand on most of the unresolved issues, but distrusts Sadat's go-it-alone strategy. He does, nevertheless, place a high priority on re-creating an aura of unity among Arab members of the nonaligned movement. Yugoslavia is also interested in maintaining improved relations with the US, and this probably accounts for its uncharacteristically constructive approach in not condemning the Camp David agreement.

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The 86-year-old Tito has not traveled abroad since his trip to Washington and London last March; his doctors probably are unhappy about his present travel plans.

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LEBANON: More Army Teams to South

Defense Minister Khoury yesterday told Ambassador Dean that he and the commander of UN peacekeeping forces had decided to send an additional 16 Lebanese Army personnel to south Lebanon on Wednesday to join UN battalions as liaison representatives. Eight were sent to the UN units last week in the first stage of a plan to establish a Lebanese Government presence in the south before 19 January, when the UN forces' mandate comes up for renewal. Khoury's decision to send more teams this week probably will anger the Israelis and their Christian militia allies, who are suspicious of government intentions in the south. The Israelis had been informed of the Lebanese plans, but they had requested further consultations before the teams were deployed.

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IRAQ-SYRIA: Reopening of Pipeline

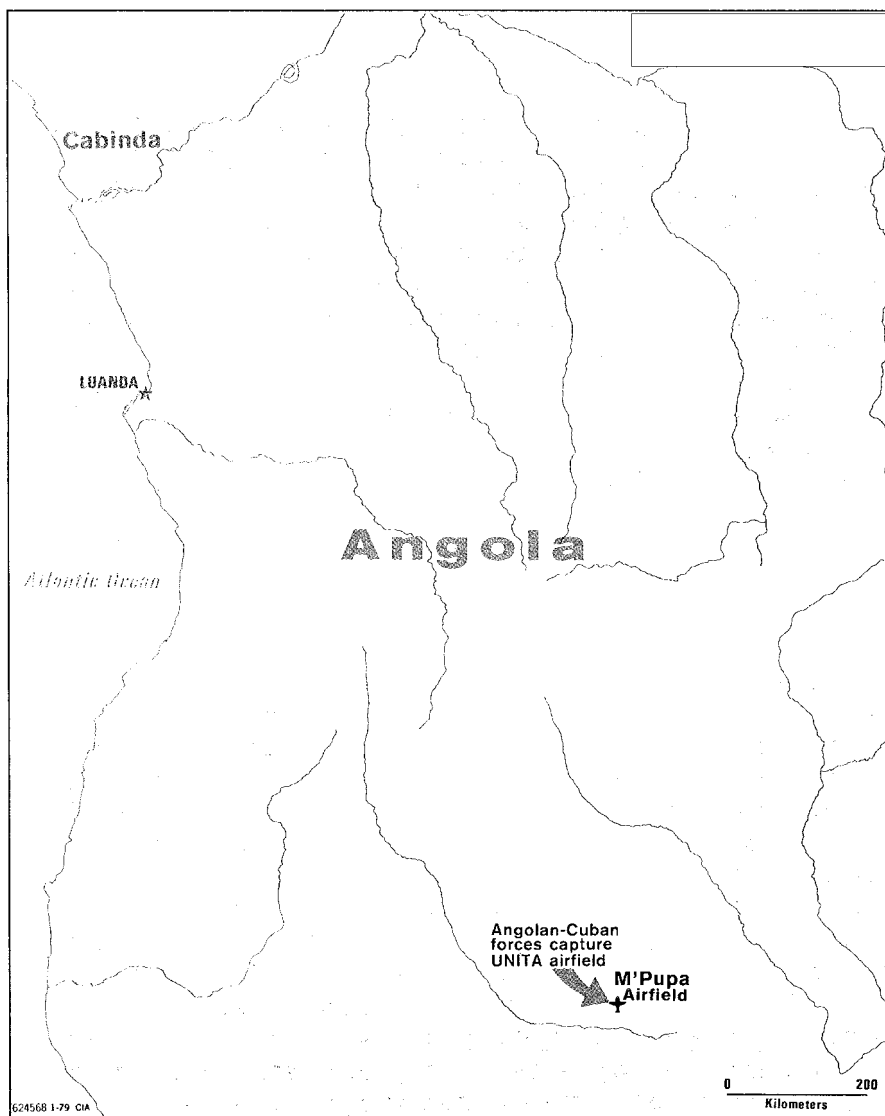
The Iraqi Petroleum Corporation pipeline, which runs from Iraq through Syria to the Mediterranean, is scheduled to begin operating by the end of January. The opening of the pipeline--which has been closed for nearly three years because of strained political relations as well as disagreement over the price of the oil and transit fees--is symbolic of growing rapprochement between Iraq and Syria. The US defense attache in Damascus believes that the pipeline is now ready to use after recent repairs. No prices or fees have been announced; in the last full year of operation, Syria realized around \$130 million in transit fees.

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ANGOLA: Airfield Capture

Angolan Government and Cuban forces have captured M'Pupa airfield, where foreign-provided military equipment and supplies destined for Jonas Savimbi's National Union for the Total Independence of Angola have arrived during the past year. The airfield, a longtime government objective, apparently was taken during an offensive last month

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The loss of M'Pupa will disrupt UNITA's logistic network, but it will not seriously impede UNITA's effective guerrilla campaign. The insurgents are now looking for alternative airstrips; they may have difficulty, however, finding one secure from government attack.

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SPECIAL ANALYSIS

CHINA'S SEARCH FOR INDUSTRIAL TECHNOLOGY

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China's post-Mao leadership has launched an ambitious program to acquire Western machinery and technology to help modernize the country's backward industrial base. The effort, covering the entire industrial spectrum, potentially could cost more than \$40 billion in foreign exchange by 1985. The leadership is only beginning to recognize the difficulties that will eventually force China to slow the pace of the program and probably extend the 1985 goals into the 1990s.

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Vice Premier Deng Xiaoping (Teng Hsiao-ping) has been the driving force behind the program to bring the economy up to "front-line status" by the end of the century. Since October 1976, China has contracted for whole plants and technology valued well in excess of \$7 billion, more than twice the value of all such contracts signed between 1972 and 1975. China is considering contracts for at least \$33 billion more in plants and technology. Emphasis is on petrochemicals and synthetic fibers, metals, fuels, transportation, and communications.

The first stage of modernization is scheduled to entail the completion by 1985 of 120 major projects, including a variety of basic industrial complexes and transportation facilities. Many, if not all, of these projects will require massive infusions of Western technology.

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Bold Policy Shifts

China has eased a number of restrictive policies in its efforts to spur acquisition of technology and to create an environment encouraging the absorption of new techniques into industry. Perhaps the foremost policy

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turnaround is the new willingness to send thousands of students to the West to study. In addition, more than 2,000 Chinese technicians and specialists have visited Western factories over the last two years, shopping for the latest in industrial technologies. China has also encouraged visits by Western businessmen who are flocking in to promote their products and services. [REDACTED]

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China also has moved to reconcile its internal policies with international business and financial practices. In a major concession to Western businessmen concerned about patent infringements, China is laying the groundwork to recognize the International Patent Protection Agreement. The Chinese have also been compelled by the massive foreign exchange requirements of their program to consider a variety of schemes they would not permit before, including joint ventures, barter and product payback deals, long-term credits, and even government-to-government loans. [REDACTED]

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Western money markets are well disposed to extend the \$15 to \$20 billion in credits that China would require over the next several years to finance a \$40-billion capital import program. China has already obtained commitments for nearly half that amount. [REDACTED]

Potential Problems

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A combination of technical, political, and financial constraints will preclude full attainment of the modernization goals on schedule. The sheer size and speed of the effort is the primary constraint. China does not have the skilled manpower or management resources to coordinate the purchase, construction, and operation of the large number of projects it plans to complete by 1985. [REDACTED]

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The standdown of higher education in China between 1966 and 1976 left a 10-year gap in the supply of engineers and scientists. Past import programs often met

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with technological, supply, transportation, personnel, or other problems that limited the impact of imported plants and equipment. Similar problems will hamper this much more ambitious program. [REDACTED]

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The reluctance of many cadres and workers fully to embrace the leadership's program could become a critical constraint. Past policy shifts--in particular the Great Leap Forward (1958-60) and the Cultural Revolution (1966-69)--had drastic economic and political repercussions; many middle-level industrial officials and Communist Party members, fearing another dramatic shift in priorities, are wary of taking initiatives that may backfire in a few years. Further, as foreign-trained technicians and students enter the work force, their differences in outlook from less-educated workers and cadres who gained their positions during the Cultural Revolution could spark disruptive clashes. [REDACTED]

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As problems multiply, China's leaders will reduce the speed and the scope of the program, resulting in a stretch-out of 1985 targets into the 1990s. Even so, the achievement of even a fraction of the goals would add significantly to China's drive to become a major industrial power. [REDACTED]

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OVERNIGHT REPORTS

(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Iran

Press reports from Tehran indicate that the Shah left Iran today without holding the expected press conference. Just before his departure, the Majlis, Iran's lower house of parliament, gave Prime Minister Bakhtiar's government a vote of confidence by a surprisingly wide margin--149 to 43 with 13 abstentions. The Iranian Senate had given its approval to the Bakhtiar government yesterday. [REDACTED]

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Israel-Lebanon

The Israelis apparently retaliated late last night for the Palestinian terrorist attack on Maalot on Saturday. [REDACTED] Israeli patrol boats and artillery shelled a large Palestinian refugee camp south of Tyre, Lebanon. The various Palestinian factions in southern Lebanon were expecting an Israeli action [REDACTED] This is the second Israeli reprisal attack in the past four weeks. Last month Israeli aircraft bombed Palestinian targets in southern Lebanon in response to terrorist incidents. [REDACTED]

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UK

The US Embassy in London concludes that the Callaghan government is not likely to fall today following the debate on economic policy in the House of Commons. It is not certain whether the opposition Conservative leadership will push for a vote of confidence; according to one late press report, they have decided not to do so. In a vote of confidence, according to the Embassy, the Tories might have support from the Liberals, but members of Parliament representing Northern Ireland and the Scottish and Welsh nationalist parties would be likely to side with the government. The Embassy believes the Tories may decide to allow the government more time to try to resolve the issues posed by strikers in the hope that it will embarrass itself in the process. Meanwhile, today's one-day national rail strike--threatened to be resumed on Thursday--will further disrupt long-distance freight transport already seriously hampered by the truck drivers' strike.

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Thailand-Kampuchea

In an assessment of the current situation, the US Embassy in Bangkok reported yesterday that the Thai are drifting into acceptance, albeit reluctant, of Vietnamese forces on their border. The prospect of direct Thai military action in Kampuchea, never very high, is receding daily. The Embassy believes there are numerous possibilities for miscalculation as Vietnamese forces pursue remnants of the Pol Pot regime. The Thai do not appear eager to consider cooperating with the Chinese in encouraging guerrilla warfare in Kampuchea.

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Bolivia

According to press reports, a spokesman for the Padilla government last night announced the resignations of 15 of the 18 ministers in the nearly all-military cabinet. The ministers allegedly resigned to give President Padilla a free hand in choosing his team for guiding Bolivia toward a return to democracy. The spokesman said the new cabinet would be named today. Elections are scheduled for 1 July, and reforms to make them more democratic were announced last Thursday. Padilla ousted the more authoritarian Juan Pereda in a bloodless coup two months ago. [REDACTED]

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Angola-Cuba

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[REDACTED]
Defense Minister Carreira on Thursday said that President Neto is planning to fly to Cuba on 23 January for a four- or five-day visit. Carreira indicated that Neto would attempt to disentangle Luanda from an agreement signed by former Deputy Premier Rocha in December providing for an "exorbitant number of additional Cuban advisers" in Angola--apparently some 6,400 more technicians. Carreira asserted that Neto relieved Rocha from his post last month primarily because he signed the agreement without approval. The Defense Minister added that Neto would visit President Pereira of Cape Verde on the way home from Havana. [REDACTED]

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